

MONTHLY REVENUE REPORT

September 2006

The revenue collected from Michigan's major General Fund and School Aid Fund earmarked taxes fell 9.5% in September to \$1.86 billion. This decline in tax collections was widespread as eight of these major taxes experienced a drop in receipts compared with their year-ago level. The general weakness in tax collections was exacerbated by a large use tax refund and the negative impact of some noneconomic collection timing factors. September marked the second consecutive month that tax collections declined significantly from their year-ago level. Using a three-month moving average to help smooth the monthly noneconomic fluctuations in tax collections reveals that tax collections were down 4.2% for the three months ending in September. Prior to September, tax collections on a three-month moving average basis had topped the year-ago level for seven consecutive months.

On a fiscal year-to-date basis, tax collections from the major taxes are down 0.8%. Even though Michigan's fiscal year ended on September 30th, tax collections for FY 2005-06 are still ongoing. Taxes collected in October and November that became a liability before the end of September will be accrued back to FY 2005-06. These tax accruals are particularly significant for the single business and State education taxes. Based on the consensus revenue estimates and tax collections to date, it appears that FY 2005-06 tax collections are falling short of the consensus revenue estimates by an estimated \$130.0 million. Of this shortfall, about \$90.0 million is in School Aid Fund earmarked taxes and \$40.0 million is in General Fund taxes.

Net income tax revenue in September totaled \$660.4 million, which was up 5.4% from last year's level. Gross collections were up 5.6% to \$683.0 million due to a 4.6% increase in withholding payments and an 8.2% increase in quarterly payments. On a three-month moving average, net income tax collections were up 3.4% in September, which marks the 17th consecutive monthly increase. On a fiscal year-to-date basis, net income tax collections are up 2.9%, but are trailing the consensus revenue estimate by about \$16.0 million.

Sales tax revenue in September totaled \$507.7 million, representing an 11.1% decrease from last year's level. Motor vehicle sales tax collections were down 3.9% in September and sales tax collections from all other taxable retail transactions were down 12.0%. On a three-month moving average, sales tax collections were down 4.5% in September, marking their steepest decline so far in FY 2005-06. On a fiscal year-to-date basis, sales tax collections are down 0.9% and are running below the consensus estimate by about \$50.0 million.

Use tax collections fell a sharp 50.1% in September to \$68.4 million. Three major factors contributed to this very large decline: 1) a very large refund boosted total use tax refunds in September to \$38.1 million, compared with total refunds of only \$0.6 million one year ago; 2) September ended on a weekend and this caused some collections that otherwise would have been collected in September to spill over into October; and 3) the year-ago use tax level was artificially high due to a large one-time payment. At the end of August, fiscal year-to-date use tax collections were even with the year-ago level, but as a result of the steep decline in September, fiscal year-to-date collections are now down 5.2% and are trailing the consensus estimate by about \$45.0 million.

Single business tax receipts totaled \$90.5 million, which was up 8.3% from last year's level. So far in FY 2005-06, these business tax collections are up 1.7% from last year's level and are ahead of the consensus estimate by about \$13.0 million.

The table on the back of this report identifies the major taxes included in this report, and provides their respective revenue levels and growth rates for September 2006, along with their fiscal year-to-date collections and growth rates. Also presented are the consensus revenue estimates for FY 2005-06, which were adopted at the May 2006 Consensus Revenue Estimating Conference.



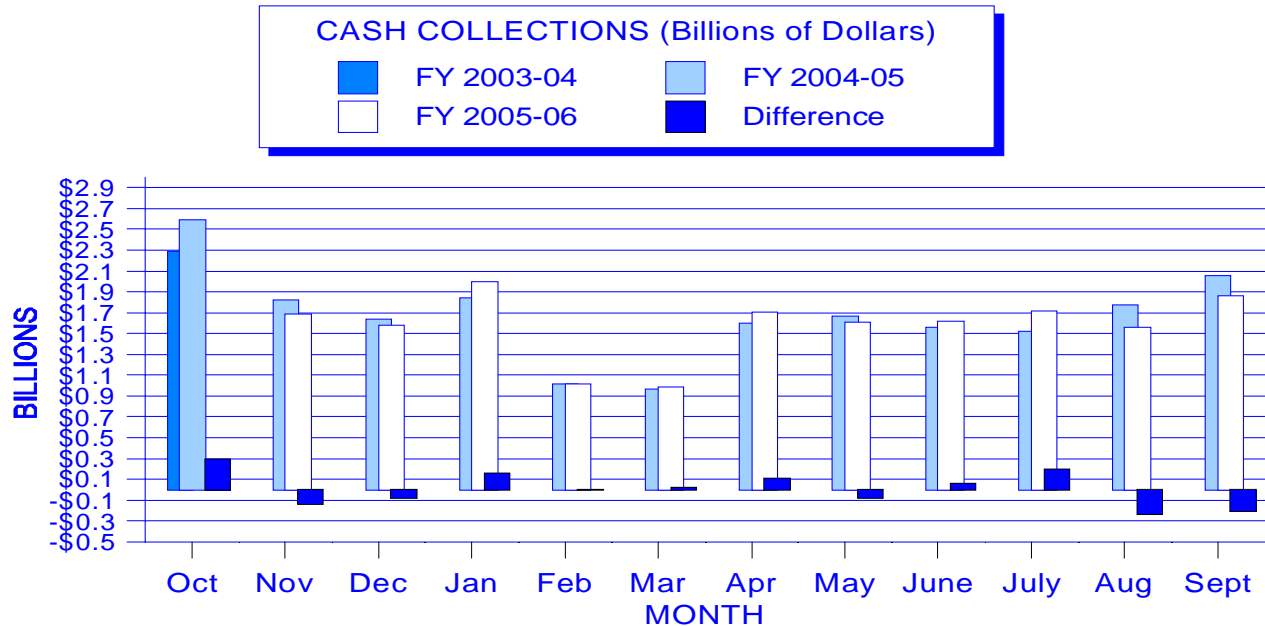
Jay Wortley, Senior Economist

MICHIGAN REVENUE UPDATE
SEPTEMBER 2006
(dollars in millions)

Type of Revenue	September Collections		FY 2005-06 to Date ²⁾		FY 2005-06 Estimate ³⁾	
	Total ¹⁾	% Change From Year Ago	Total ¹⁾	% Change From Year Ago	Total ¹⁾	% Change From FY 2004-05
Gross Income Tax	\$683.0	5.6%	\$7,263.1	2.2%	\$7,933.7	2.8%
Refunds	(22.6)	11.3	(1,609.4)	(0.1)	(1,679.0)	4.2
Net Income Tax	\$660.4	5.4%	\$5,653.7	2.9%	\$6,254.7	2.4%
Sales Tax	507.7	(11.1)	6,040.8	(0.9)	6,709.6	1.7
Motor Vehicles	59.9	(3.9)	658.4	(11.3)	---	---
All Other Sales Tax	447.8	(12.0)	5,382.4	0.5	---	---
Use Tax	68.4	(50.1)	1,231.6	(5.2)	1,411.6	0.7
Tobacco Taxes	107.1	(4.7)	1,074.2	(0.7)	1,179.5	0.0
Single Business Tax	90.5	8.3	1,665.4	1.7	1,852.9	(3.2)
Insurance Tax	0.1	(94.1)	197.4	(8.1)	235.0	(5.8)
State Education Property Tax	380.1	(4.1)	975.8	(3.1)	2,010.0	5.0
Real Estate Transfer Tax	28.9	(14.2)	283.5	(2.2)	320.0	2.1
Estate/Inheritance Tax	0.3	(99.6)	0.5	(99.6)	1.0	(99.0)
Casino Wagering Tax ⁴⁾	11.7	10.4	153.9	6.1	152.4	4.5
Oil & Gas Severance Tax	5.3	(5.4)	78.5	32.6	94.0	40.9
Total	\$1,860.5	(9.5)%	\$17,355.3	(0.8)%	\$20,220.7	1.1%
Addendum:						
Gross Lottery Sales ⁴⁾	\$199.6	22.4%	\$2,212.1	8.2%	\$2,223.8	8.7%
Net to School Aid Fund ⁴⁾	\$ 58.9	5.3%	\$ 684.7	5.0%	\$ 708.5	6.1%

- 1) Total collections are unadjusted cash collections unless otherwise noted.
2) FY 2005-06 year-to-date collections begin with November 2005 collections to reflect accrual accounting.
3) Consensus revenue estimates adopted at the May 17, 2006, Consensus Revenue Estimating Conference.
4) Lottery and casino revenue is not accrued, so FY 2005-06 collections will include October 2005 to September 2006.

Actual Revenue Collections for Major State Taxes*
October 2004 to September 2006



*Comparison of actual collections. Major taxes include the net income (gross collections less refunds), sales, use, tobacco (cigarette tax and other tobacco products tax), SBT, insurance retaliatory, estate, oil and gas severance, State education property, real estate transfer, and casino wagering taxes.